

THE EFFECT OF DIVIDENDS ON SHAREHOLDER WEALTH IN INDIAN COMPANIES: A RESEARCH STUDY**Manita**

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Abstract

This study used data spanning 15 years, from 2001 to 2015, to examine the effects of dividend payout on shareholders' wealth for five key industries in India: the automotive, infrastructure & construction, energy, information technology, and pharmaceutical sectors, as well as the impact of dividend announcement on share price. Regression on panel data and a paired t test were used. For the majority of sectors, it was shown that dividend distribution had a considerable negative effect on owners' wealth. The price of shares varied significantly before and after the dividend announcement.

Key Words: Dividend, shareholders wealth, dividend announcement, Panel regression, TOBINSQ.

Introduction

The Latin word "Dividendum" is the source of the term "dividend." "That which is to be distributed" is what this implies. Dividends are payments made from profits to shareholders based on their percentage of ownership. Based on their percentage of ownership in the firm, each shareholder of the company is entitled to a piece of the dividend.

The ratio of retained to dispersed profits is referred to as the dividend choice or dividend policy. The three other choices of investing, financing, and liquidity are all connected with the dividend decision. Companies choose the percentage of profits to be dispersed as dividends and the percentage to be kept with the goal of maximizing shareholder value. Companies should choose the ideal dividend distribution with a risk-return trade-off that maximizes shareholder value as the goal. The type and timing of dividend payments must be determined by the companies.

Dividends continue to be one of the trickiest riddles in corporate finance, according to Allen et al. (2000), even though a variety of ideas have been proposed in the literature to explain their persistent existence. Even Frankfurter et al. (2002) came to the conclusion that "The dividend puzzle is one of the most challenging topics of modern finance/financial economics, both as a share value enhancing and as a matter of policy." Despite forty years of investigation, it has remained unsolved.

The purpose or objective of the firm has not changed over the last several decades, but the scope of financial management and the duties of a finance manager have. Maximizing shareholder wealth is the firm's primary goal. The favorable net present value of the financial choices serves as its representation. According to Azhagaiah & Sabaripriya (2008), shareholders believe that a rise in the company's share market price creates wealth. Even several researchers have established this. The value of the company is determined by each of the four financial choices, including investment, financing, dividend, and liquidity. The production of value for shareholders is influenced by all four actions taken together. One of the crucial financial choices that helps shareholders build wealth is the choice to pay a dividend. Some dividend theories support the idea that payout decisions have an impact on a

company's market value, while others refute it. Those who have established a connection between dividend choice and firm value often draw a parallel between dividend decision and investment options offered by the company.

Retaining profits would be preferable to dividend distribution if there were solid and lucrative investment options. The firm's worth would rise as a result of this. If there are no other investment options, the management would be better off paying dividends. If the market value of the company rises, shareholder money is produced. It is the result of the firm's four choices. The best dividend policy should be determined by the finance management in order to maximize shareholder wealth via an increase in the company's market value. The effect of dividend determinants on shareholders' wealth would be examined in this research.

Pettit (1972) claimed that changes in dividend announcements cause changes in the market price of shares. Following the announcement of dividend payments, positive anomalous returns were discovered by Gordon (1959, 1962) and Vickery (1978). According to Easton and Sinclair (1989), stock prices reacted negatively to dividend announcements. After conducting an analysis, Uddin and Chowdhury (2005) concluded that dividend announcements lacked any informational value. Based on earlier research, it was discovered that the influence of dividend announcements on share price movement had been inconsistent. In this research, the effect of dividend announcement on stock market price was examined year-by-year and market capitalization-by-market-capita. The major goals of this study are to assess how dividend payouts and their influencing factors affect shareholders' wealth and to determine how dividend announcements affect share prices.

Literature Review

The shareholder wealth and business success are measured by TOBINSQ. The straightforward estimate of Tobins'q was discussed by Pruitt and Chung in 1994. It was said that approximation q, MVA, and EVA had certain commonalities. A recognized standardized performance metric is approximate. In a study conducted by Kakani et al. (2001), 566 firms were examined to determine the factors that affected the financial performance of the Indian corporate sector in the post-liberalization period. According to Wernerfelt and Montgomery (1988), the researchers utilized and advocated TOBINS'Q as a more alluring indicator of shareholders' wealth than accounting returns. Tobin's Q was utilized by Amidu (2007) as a metric for evaluating the performance of the companies listed on the Ghana Stock Exchange. The association between director compensation and the performance of companies listed on the Nairobi Securities Exchange was examined by Ben et al. in 2013. One of the company performance measures employed was TOBINS'Q. Odongo et al. (2014) looked at how capital structure and profitability affected the TOBINS'Q performance of Kenyan listed firms. Sweety and Kaur (2014) looked at 100 Indian firms from 1997 to 2009 and the effect of firm-specific variables on shareholders' wealth generation. As a stand-in for shareholder wealth generation, the researchers employed EVA (Economic Value Added), an accounting-based metric, MVA (Market Value Added), and TOBINS'Q, a market-based indicator. It was discovered that the chosen characteristics accounted for 55% of the variance in MVA and TOBINS'Q and 34% of the variation in EVA. The effect of company characteristics on firm performance was examined by Mitharshana (2015). Leverage was favorably significant at 1%, according to his analysis of company performance using Tobin's'q. Asset tangibility has negative Tobin's q significance at the 10% threshold. Both liquidity and

firm size had little impact. The effect of corporate governance factors and company size on the Tobin's' Q measure of business performance was studied by Kirubalini (2015). Relationship between business size and performance was negligible. In a frontier market in Kenya from 2007 to 2011, Robert and Mukras (2015) examined the financial leverage and operational performance of listed companies. Financial leverage and ownership concentration were shown to be adversely significant when using TOBINS'Q as a measure of financial performance, whereas tangibility was found to be favorably significant.

Gitundu et al. (2015) looked at the impact of changes in corporate governance on the financial performance of 55 Kenyan enterprises that had undergone privatization between 2007 and 2013. As a gauge of financial success, Tobin's Q was utilized. With TOBINS'Q, board size was adversely significant while board composition was favorably significant. For 28 businesses listed on the NSE between 1997 and 2006, Azhagaiah and Sabari Priya (2008) investigated the effect of dividend policy on shareholders wealth. Market price per share was utilized as a stand-in for dividend policy, while dividend per share served as a stand-in for shareholder wealth. For organic chemical businesses, dividend policy had a positive correlation with shareholder wealth, but it had no correlation with inorganic chemical companies. The effect of dividend policy on shareholders' wealth of 68 businesses listed on the Karachi Stock Exchange from 2002 to 2008 was examined by Shahid Ali et al. in a 2010 study. While dividend payment ratio, company size, price-earnings ratio, growth, and profitability were employed as independent variables, annual stock return served as a proxy for shareholders' wealth. By using a fixed effect model, it was shown that for businesses with fiscal years ending in June, profitability and price-to-earnings ratios were both favorably significant, however company size was negatively significant with regard to shareholder wealth. Businesses whose fiscal year ended in December showed favorable growth in terms of shareholder wealth. Sujata Kapoor (2010) looked at how dividend policies of Indian companies in the IT, FMCG, and service sectors affected shareholders' wealth. To determine the effect of dividend policy on shareholder wealth, an event study was performed. An announcement of a cash dividend has an effect on the market value of the shares that reflect the wealth of shareholders in the FMCG and services sectors.

In her 2011 study, Shaveta Gupta examined the management concerns and variables that influenced dividend choices in the Indian engineering, FMCG, IT, and textile industries between 2004 and 2008. Shareholder wealth was calculated as the ratio of Market Value to Book Value. With the exception of the textile sector, where the dividend payout ratio was only adversely significant for the year 2006, all years and industries saw a negative correlation between dividend pay-out ratio and shareholder wealth. Gul et al. (2012) investigated the connection between 75 businesses listed on the Karachi Stock Exchange between 2005 and 2010 regarding their dividend policies and shareholders' wealth. Market price was utilized as a proxy for shareholder wealth, and as independent variables, dividends per share, lagged price earnings per share ratios, retained earnings, and lagged market price per share were also employed. When compared to non-dividend paying corporations, the average market value to book value of equity for dividend paying companies was quite high. Through multiple regression and stepwise regression, it was shown that shareholders' wealth was favorably correlated with dividend per share and lagged market price per share, but negatively correlated with retained earnings and the lagged price earnings ratio. Mistry

(2012) examined the effects of dividend policies on shareholders' wealth at a number of important Indian pharmaceutical companies between 2001 and 2009. Five businesses were identified as having a strong beneficial influence on shareholders' wealth as determined by net worth. Between 2006 and 2010, Bawa and Kaur (2013) investigated the effect of dividend policy on shareholders' wealth in the Indian information technology industry. Dividend per share, retained earnings per share, price earnings ratio, and lagged market price per share were utilized as independent variables, while market price per share served as a proxy for shareholders' wealth. The market to book value of corporations that pay dividends and those that do not varies significantly. Dividend per share, retained profits per share, and lagged market price per share were all positively correlated with shareholders' wealth, according to fixed effect panel regression.

216 Nigerian public firms' dividend policies were examined by Chidinma et al. (2013) for their effects on shareholders' wealth from 2000 to 2011. The stockholders' wealth was found to be influenced by dividend policy. During the period of 2006 to 2011, Sarwar (2013) looked at the impact of dividend policy on shareholders' wealth in 33 listed sugar firms in Pakistan. Market price per share was utilized as a proxy for shareholder wealth, while independent variables included dividend per share, earnings per share, lagged market price per share, price earnings ratio, and retained earnings. Lagged price earnings ratio had a negative significant influence on owners' wealth, but dividend per share, earnings per share, and lagged market price per share were favorably significant. Using a vector error correction model, De Wet and Mpinda (2013) examined the effects of dividend payments on shareholders' wealth for 46 businesses listed on the Johannesburg Stock Exchange between 1995 and 2010. While earnings per share had little bearing on a shareholder's wealth, dividend yield had a large positive influence on share price in the market. In Malaysia's listed food producer industry, 59 companies, Kai et al. (2014) examined the effects of dividend policy on shareholders' wealth from 2008 to 2012. Dividend payout ratio, earnings volatility, long-term debt ratio, asset growth, profitability, and liquidity were employed as independent variables, whilst earnings per share was used as a stand-in for shareholders' wealth. While earnings volatility and profitability were positively related with shareholders' wealth, dividend payout ratio and long-term debt ratio were not. Asset and liquidity growth were negligible compared to shareholder wealth.

Iqbal et al. (2014) looked at the effect of Pakistan's 35 chosen manufacturing firms' dividend policies on shareholders' wealth from 2006 to 2011. Market capitalization, growth, and dividends per share were all shown by OLS to be positively relevant with respect to shareholder wealth. In his 2014 study, Kumaresan (2014) examined the effects of dividend policies on stockholder wealth at the top 10 publicly traded businesses in Sri Lanka's hotels and travel industry from 2008 to 2012. Shareholder wealth was proxied by earnings per share. Return on equity, dividends paid out per share, and the dividend payout ratio all had a positive correlation with shareholders' wealth, but the retention ratio had a negative correlation. Tahir and Raja (2014) looked at how Pakistani gas exploration firms' payout policies affected shareholders' value from 1999 to 2006. Dividend payout ratio, price earnings ratio, and book value to market value were treated as independent variables, and holding period yield was utilized as a proxy for shareholder wealth. It was discovered that the link between the dependent and independent variables was negligible.

Results and Discussions

Wealth Effects of Dividend Payments on Shareholders

The literature research revealed that the key dividend determinants were ASG, AT, DER, ID, ISH, LAGDPR, LNTA, OD, PER, and RONW. To analyze the effect of dividend distribution and its drivers on shareholders' wealth, the following common model has been used.

Where, $TOBINS'Q = (DPR) + (ASG) + (DER) + (ID) + (LAGDPR) + (LNTA) + (OD) + (PER) + (PER) + (RONW) + e$ Measure of Shareholder Wealth (TOBINS'Q) Dividend: DPR Ratio of payouts

ASG = Annual Sales Growth evaluates the business's growth prospects. DER = Debt Equity Ratio gauges the company's financial leverage.

ID = Investment Demand gauges the company's investment level. LAGDPR = Lagged Dividend Pay Out Ratio calculates dividends paid in the past. Natural log of Total Assets (LNTA) is a measurement of the size of the company.

Ownership Dispersion, or OD, calculates the agency cost.

Price Earnings Ratio (PER) assesses the firm's degree of risk.

Return on Net Worth, or RONW, gauges a company's profitability.

Additionally, between 2007 and 2015, the share price increased throughout the event time. Overall, the dividend announcement had a positive impact on the share price of the automotive sector by 67% in the post-event period, 20% in the pre-event period, and 13% in the event period. It was determined that for the majority of the chosen car sector businesses, share price volatility was considerable after dividend announcements.

The findings revealed that throughout the post-event periods in the years 2003, 2005, 2009, 2010, 2011, 2012, and 2014, the share price had increased. This suggested that the share price had responded favorably to dividend announcements in the aforementioned years throughout the time after the occurrence. On the other hand, the share price of the Infrastructure & Construction business had increased prior to events in the years 2001, 2008, 2013, and 2015. This suggested that the share price responded favorably to the dividend announcement prior to the event. Furthermore, the share price increased throughout the event period in the years 2002, 2004, 2006, and 2007. Overall, the dividend announcement had a positive impact on share prices in the Infrastructure & Construction sector by 46% in the post-event, 27% in the pre-event, and 27% in the event period. It was determined that for the majority of the examined Infrastructure & Construction sector businesses, share price volatility was substantial after dividend announcements.

The results have shown that the share price increased in the post-event period in the years 2003, 2004, 2005, 2007, 2009, 2010, 2014, and 2015. This suggested that the share price had responded favorably to dividend announcements in the aforementioned years throughout the time after the occurrence. On the other hand, the share price of the energy business had increased in the lead-up to events throughout the years 2001, 2002, 2006, 2008, 2011, and 2012. This suggested that the share price responded favorably to the dividend announcement prior to the event. Furthermore, the share price increased throughout the event period in 2013 as a whole. The impact of the dividend announcement on the share price of the energy sector was favorable overall, favoring post-event periods by 53%, pre-event periods by 40%, and event periods by 7%. It was determined that for the majority of the chosen energy sector businesses, share price volatility was considerable after dividend announcements.

The findings indicate that in the post-event era for the years 2001, 2004, 2005, 2009, 2013, 2014, and 2015, the share price increased. This suggested that the share price had responded favorably to dividend announcements in the aforementioned years throughout the time after the occurrence. On the other hand, the share price of the information technology sector had increased prior to events in the years 2002, 2003, 2006, 2008, 2011, and 2012. This suggested that the share price responded favorably to the dividend announcement prior to the event. Furthermore, the share price increased throughout the event period between 2007 and 2010. Overall, the impact of the dividend announcement on the share price of the information technology sector was 33% favorable before the event, 47% favorable after, and 13% favorable during the event. It was determined that for the majority of the chosen information technology businesses, share price volatility was considerable after dividend announcements. The findings indicate that the share price increased after events in the years 2003, 2004, 2005, 2006, 2009, 2010, 2011 and 2014. This suggested that the share price had responded favorably to dividend announcements in the aforementioned years throughout the time after the occurrence. On the other hand, the share price of the pharmaceutical business had increased throughout the pre-event era in the years 2001, 2002, 2007, and 2012. This suggested that the share price responded favorably to the dividend announcement prior to the event. Additionally, the share price increased throughout the event period in the years 2008, 2013 and 2015. The impact of the dividend announcement on the share price of the pharmaceutical sector was favorable overall, favoring the post-event period by 53%, the pre-event period by 27%, and the event period by 20%. It was determined that for the majority of the chosen pharmaceutical businesses, share price volatility was considerable after dividend announcements.

According to the findings, the share price increased after events in the years 2001, 2002, 2003, 2004, 2005, 2006, 2009, 2010, 2012, 2013, and 2014. This suggested that the share price had responded favorably to dividend announcements in the aforementioned years throughout the time after the occurrence. However, in the pre-event era between 2008 and 2011, the share prices of high capitalisation corporations had increased. This suggested that the share price responded favorably to the dividend announcement prior to the event.

Additionally, between 2007 and 2015, the share price increased throughout the event time. Dividend announcements generally had a positive impact on share prices of high capitalization corporations, with a 74% post-event, 13% pre-event, and 13% post-event effect. The bulk of the chosen big capitalization businesses' share prices showed substantial volatility after dividend announcements, it was determined.

According to the findings, the share price increased after events in the years 2003, 2004, 2005, 2006, 2009, 2011, 2012, 2013, and 2014. This suggested that the share price had responded favorably to dividend announcements in the aforementioned years throughout the time after the occurrence. On the other hand, in the months before to major events in the years 2001, 2008, and 2010, the share price of midcap businesses increased. This suggested that the share price responded favorably to the dividend announcement prior to the event. Additionally, the share price increased throughout the event period in the years 2002, 2007 and 2015. Dividend announcements generally had a 60% positive post-event, 20% positive pre-event, and 20% positive event period impact on the share prices of mid size corporations. It was determined that for the majority of the chosen mid size businesses, share price

volatility was considerable after dividend announcements.

According to the findings, the share price increased after events in the years 2002, 2003, 2004, 2005, 2007, 2009, 2010, 2012, 2014, and 2015. This suggested that the share price had responded favorably to dividend announcements in the aforementioned years throughout the time after the occurrence. On the other hand, in the months before to events in the years 2006, 2008, and 2011, the share price of small capitalization businesses had increased.

This suggested that the share price responded favorably to the dividend announcement prior to the event. Additionally, between 2001 and 2013, the share price increased throughout the event time. Dividend announcements generally had a positive impact on small capitalization company share prices, with 67% of those effects favoring post-event periods, 20% favoring pre-event periods, and 13% favoring event periods. It was determined that for the majority of the chosen small size businesses, share price volatility was considerable after dividend announcements.

For all of the examined sectors and market capitalizations, it was discovered that the post-event dividend announcement impact on the closing share price of the firms was more favorable than the pre-event and event effects.

Conclusion

For all selected industries combined from 2001 to 2015, all selected industries combined from 2009 to 2015 (post financial meltdown), all selected industries mid-capitalization companies combined from 2001 to 2015, all selected companies of the energy industry, all selected companies of the information technology industry, and all selected companies of the pharmaceutical industry, dividend payout had a negative impact on shareholders' wealth. The bulk of the chosen sectors' dividend payout ratios and market capitalizations saw severe negative effects. An increase in dividend payments would lower shareholder value. Hull (2012) asserts that the distribution of a dividend would cause a decline in the share price on the ex-dividend date. More capital would be preferred by investors, management, and promoters than dividend distribution. The best payment strategy should be created by policymakers in order to improve shareholder value. Dividend payout had a positive effect on shareholders' wealth for all chosen industries' small capitalization companies from 2001 to 2015 and for all chosen industries' automobile companies from 2001 to 2015, but it had no effect on shareholders' wealth for all chosen industries' combined from 2001 to 2007 (pre-financial meltdown), for all chosen industries' large capitalization companies from 2001 to 2015, and for all chosen industries' infrastructure & construction companies. For all of the examined sectors and market capitalizations, it was discovered that the post-event dividend announcement impact on the closing share price of the firms was more favorable than the pre-event and event effects. All selected companies in the large capitalization industries from 2001 to 2015, all selected companies in the automotive industry from 2001 to 2015, and all selected companies in the information technology industry all showed a significant difference in closing share between pre and post event.

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